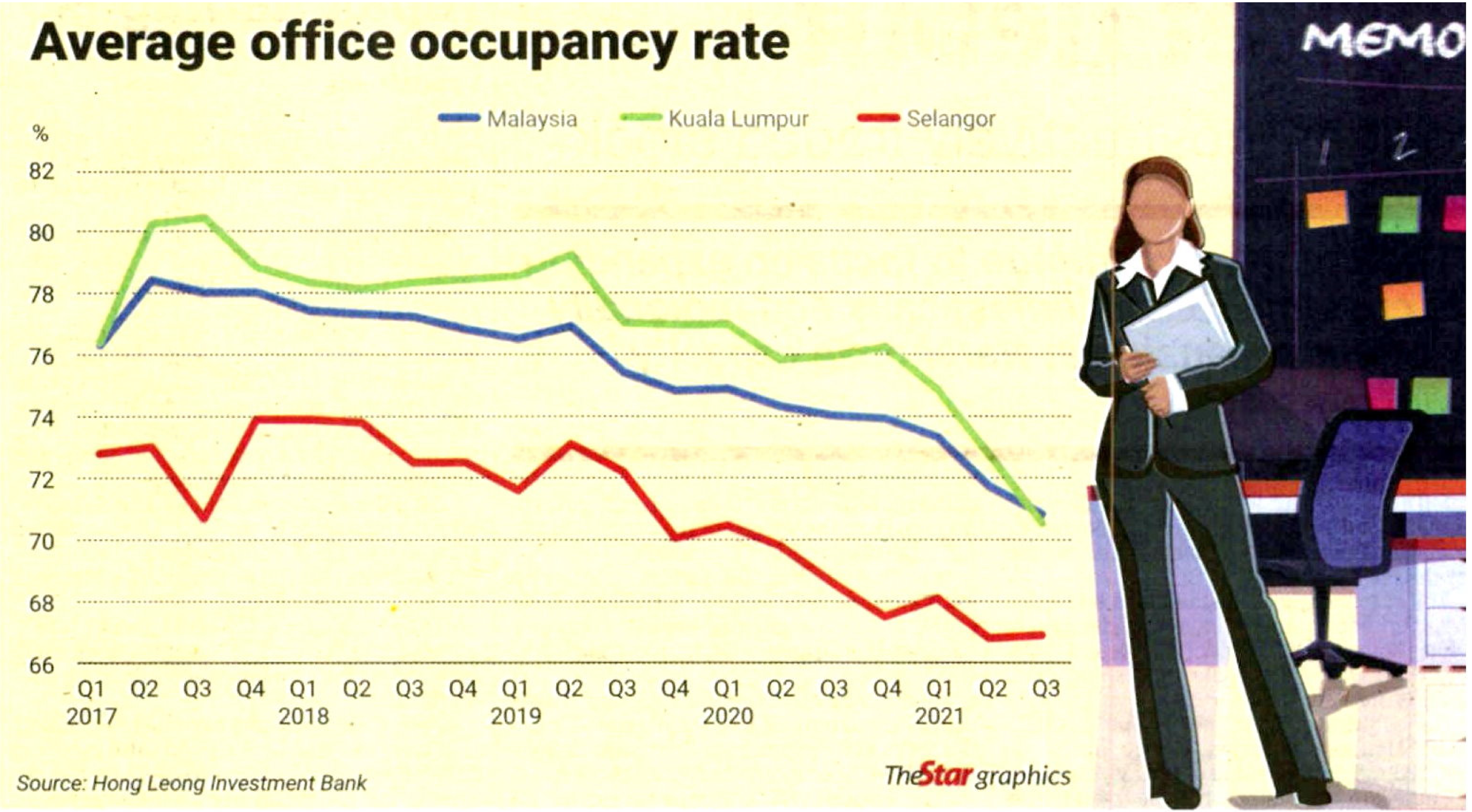
PROPERTY

Industrial REITs to remain stable

Retail, hotel segment also poised to recover as economy picks up



Selective office and industrial real estate investment trusts or REITs are expected to remain stable going into 2022, with improvement in office occupancy anticipated following the economic recovery. > See page 6

PETALING JAYA: Going into 2022, selective office and industrial real estate investment trusts (REITs) are expected to remain stable while retail and hotel REITs will recover gradually as the economy continues to improve.

However, Hong Leong Investment Bank (HLIB) Research noted that the issue of oversupply will continue to linger next year as new supply and the completion of new buildings have pushed down the average occupancy rates.

This is, nonetheless, not fully the case for offices under its coverage namely Sentral REIT, IGB Commercial REIT, UOA REIT and KLCC Stapled Securities due to their prominent location of assets, it said in its latest report.

"Office REITs under our coverage managed to maintain strong occupancy of above 80%.

"This is backed by the longer tenancy in office REITs versus retail REITs paired with resilient rental reversion especially for prime areas, thus providing dividend certainty," explained HLIB Research.

It also anticipated improvement in occupancy, following the economic recovery in an "endemic reopening," with more workers going back to the office leading to the increase in demand for office space.

For office, the research house likes Sentral REIT with a target price (TP) of RM0.95 for its stable portfolio occupancy as well as attractive dividend yield of 8.4%, which is the highest among REITs in its universe.

The industrial REITs have also been steadily strong even during the pandemic, backed by the robust growth of e-commerce which drives up the demand for logistics and fulfillment centres.

"The average price of industrial land in greater Kuala Lumpur continues to increase.

"Therefore, we reckon industrial REITs will continue their stable growth trajectory in 2022," it added.

For industrial, HLIB Research favours Axis REIT with a TP of RM2.32 given its strong resilience throughout the pandemic driven by high occupant tenancy in its diversified portfolio.

On retail and hotels, HLIB Research expects a gradual recovery in this segment in line with expectations of improving business activities in 2022.

Since the economic reopening started in mid-August, the research house saw footfall improvements in malls and in hotel occupancy.

"Thus, we feel this would pave up the momentum for 2022. However, we think the traction is not as rapid due to the absence of foreign tourists," it noted.

While retail rental assistance is expected to decline, with affected tenants being allowed to start back operations, HLIB Research is concerned on the rental reversion as "we foresee muted or negative rental reversion as an attempt to retain tenants."

That said, the research house has a "buy" call on IGB REIT with a TP of RM1.75 for its prime asset location, high occupancy and reliance on domestic footfall.

"We believe the group would experience a faster recovery among other retail REITs."

Overall, HLIB Research maintained a neutral view on the REITs sector as it expected reopening sentiment to be balanced off by the expectations of rising rates.

On the overnight policy rate (OPR), the research house's economic team expects OPR to hike up 25 basis points to 2.00% in the fourth quarter of 2022 from 1.75% currently.

Despite expectations of the slight increase, it reckoned that the quantum is still relatively low when compared to the pre-Covid-19 days of 3.00%.

"Hence, the low level of OPR would remain favourable for REITs, with a low borrowing cost for potential future acquisitions," it added.